REPORT OF EXAMINATION
OF THE

TRANSUNION TITLE
INSURANCE COMPANY

AS OF
DECEMBER 31, 2005

Filed January 30, 2007

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Los Angeles, California
October 12, 2006

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

TRANSUNION TITLE INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 222 South Harbor Boulevard, Suite 800, Anaheim, California 92805.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; and sales and advertising.

SUBSEQUENT EVENTS

During July 2006, TransUnion Title and Escrow of California, Inc. (TTEC, withdrew from the realtor based resale business. TTEC was the Company's affiliated and sole underwritten title company which wrote 97% of the Company's business in 2005. The Company continues to write lender based or refinance title and escrow business through its direct operations.

In October 2006 an affiliate, TransUnion Settlement Solutions, Inc., entered into a Letter of Intent for the purchase of TTEC. Once the sale is submitted to and approved by the California Department of Insurance, the Company plans to write a substantial amount of business pursuant to an issuing agency agreement.

The Company is also in the final stages of executing an issuing agency agreement with an existing California licensed underwritten title company and is close to finalizing an agreement to provide title services to a major national mortgage lender. With these new sources of business, the Company anticipates substantial growth in 2007.

COMPANY HISTORY

The Company was previously a wholly-owned subsidiary of Diversified Holding Corporation (DHC), with the ultimate controlling shareholders consisting of various local banks and individuals. On July 15, 2005, 100% of the common stock of DHC was acquired by TransUnion Real Estate Services, Inc. (TURES), with the ultimate controlling persons being the Pritzker Family Trust. Pursuant to the Stock Purchase Agreement, Title Insurance Services Corporation, a wholly-owned subsidiary of TURES acquired all outstanding shares of the Company. In addition, the Company sold its wholly-owned subsidiary, Diversified Title & Escrow Services Company, to TransUnion Settlement Solutions, Inc., also a wholly-owned subsidiary of TURES.

In December 2003, the Company increased the par value of its capital stock from $100 per share to $200 per share. There are 5,000 shares authorized, issued and outstanding, for a total of $1,000,000 in capital stock. The recapitalization was accomplished by reallocating $500,000 of gross paid-in and contributed surplus to common capital stock.

Effective July 15, 2005, the California Department of Insurance approved a paid-in capital cash infusion of $3 million to the Company by TURES and also authorized the Company to convert the $700,000 surplus note to additional paid in capital. In December 2005, the parent forgave a portion of the intercompany payable resulting in an increase to paid-in capital of $475,000.

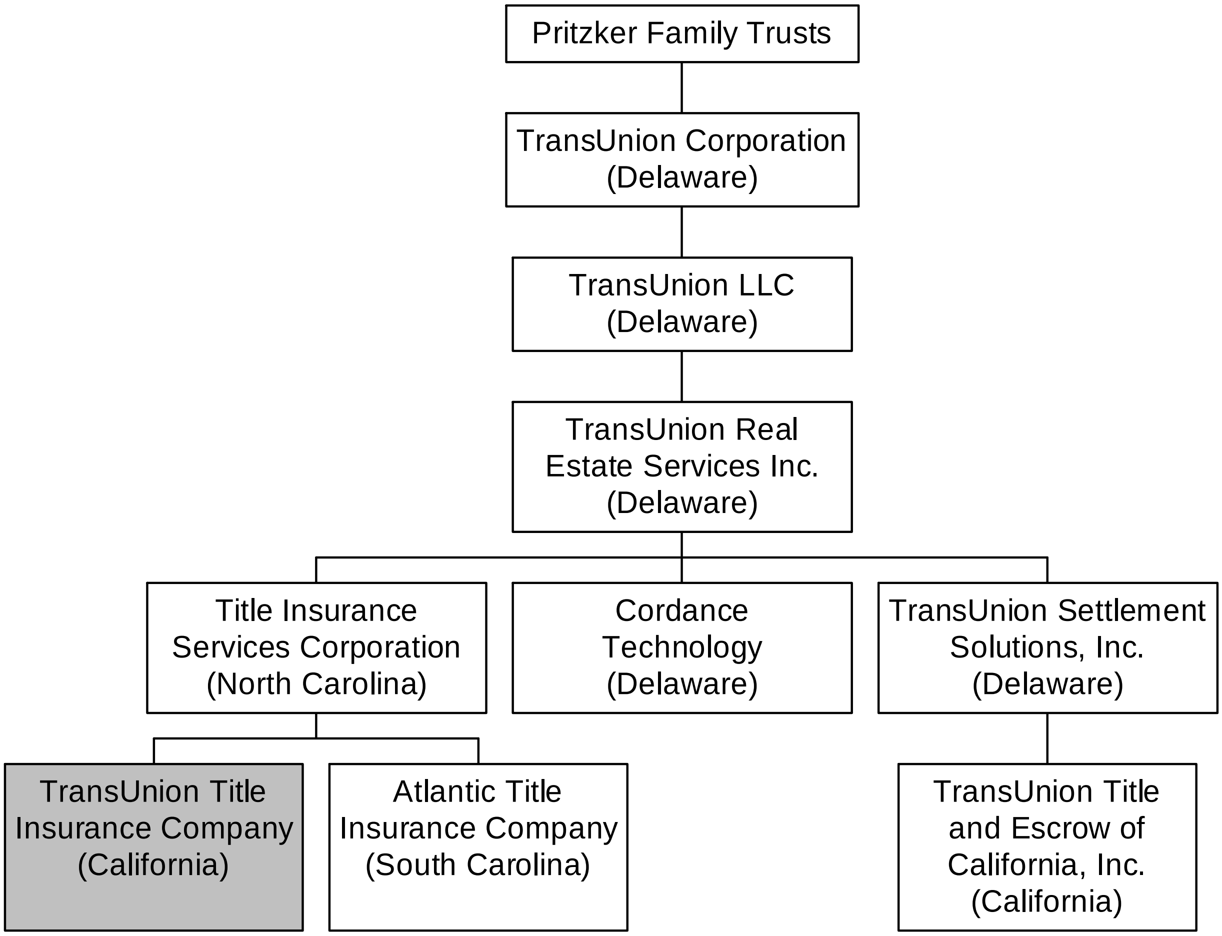
In November 2005, the Company changed its name from Diversified Title Insurance Company to TransUnion Title Insurance Company.

The Company is engaged in the business of issuing title insurance policies and performing other real estate related services in Southern California through its affiliated underwritten title company, TransUnion Title and Escrow of California, Inc.

MANAGEMENT AND CONTROL

The Company is a member of a holding company system of which TransUnion Corporation (TUC) is the ultimate controlling entity. TUC is a global provider of data, information, technology and analytical services. Some of the products and services offered by TUC and its subsidiaries include mortgage credit reports, appraisals, flood zone certification, title insurance, closing and escrow services, document preparation, recording and tracking and post-closing services. The Pritzker Family Trust maintains ultimate financial control of the holding company.

The following abridged organizational chart depicts the Company's relationship within the holding company system:



(*) all ownership is 100%

Management of the Company is vested in a four-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2005 follows:

Directors

Name and Residence	Principal Business Affiliation
Harry Carroll Gambill Chicago, Illinois	President and Chief Executive Officer TransUnion LLC
John Walter Blenke Chicago, Illinois	Executive Vice President and General Counsel TransUnion LLC
Richard Francis Lynch Wilmington, Delaware	Executive Vice President and Group President TransUnion Settlement Solutions, Inc.
Michael Frazer Dealy Wilmington, Delaware	Chief Financial Officer TransUnion Settlement Solutions, Inc.

Principal Officers

Name	Title
Gregory Lynn Oxley	President
Kevin Neil Lanigan	Secretary
Michael Frazer Dealy	Treasurer
David Mark Emery	Executive Vice President
Joseph Vincent McCabe	Vice President

Management Agreements

Cost Allocation Arrangements: The Company had a cost allocation arrangement with its affiliate, TransUnion Title and Escrow of California, Inc. (TTEC). Under the terms of the arrangement, TTEC provides all human resources, legal services, facilities, accounting functions, and information technology functions. The allocation method used was primarily based on employee headcounts.

The Company reimburses TTEC for the actual cost of these services. The Company paid $57,027 in fees to TTEC for the services provided in 2005.

Beginning in 2006, the Company no longer participates in the cost allocation arrangement with TTEC. Instead, the Company has undertaken a plan of reorganization to consolidate and centralize its title insurance underwriting support, claims management, agency relations, rate and form administration, reporting and remittance support and legal compliance with its South Carolina sister company, Atlantic Title Insurance Company. The reorganization should reduce corporate allocations as a result of shared costs and responsibilities of associates through intercompany service and management agreements. The Company anticipates the reorganization to be completed by December 31, 2006.

It is recommended that the Company prepare a complete and comprehensive written agreement outlining the allocation of costs, along with the duties and responsibilities of all parties to the agreement. The agreement should be submitted to the California Department of Insurance (CDI) for approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4).

Expense Agreement: The Company's entire payroll and various direct expenses are paid by its parent, TransUnion Corporation. The Company accrues these expenses as a payable to its parent. As of December 31, 2005, the balance due to its parent was $226,928 and has accumulated to $1,737,591 through September 30, 2006. The Company and its parent have never settled the balance and the balance continues to grow. It is recommended that the Company prepare a complete and comprehensive written agreement outlining the duties and responsibilities of all parties to the agreement. Additionally, the agreement should include a provision with settlement terms. Furthermore, the agreement should be submitted to the CDI for approval pursuant to CIC Section 1215.5(b)(4).

Tax Allocation Agreement: The Company is included in the consolidated federal income tax return of its parent, TransUnion Corporation. The tax arrangement was formalized through a written agreement entered into on February 24, 2006 for tax years commencing on or after the Company's acquisition date of July 15, 2005. Under the terms of the agreement, allocation of taxes is based upon separate return calculations, with compensation for net losses or credits. Settlement is made no later than 30 days after the filing of the consolidated federal tax return.

Conflict of Interest

Although the Company does appear to have conflict of interest procedures, the Company only provided completed statements for some of its officers, directors, and key employees for certain years. It is recommended that the Company implement procedures to annually obtain and review completed conflict of interest statements from all of its officers, directors and key employees. This is a repeat finding from the previous examination.

CORPORATE RECORDS

A review of the Company's board minutes disclosed that there was no authorization and approval of investments as required by California Insurance Code (CIC) Sections 1200 and 1201. The Company's minutes failed to provide any general statements pertaining to its investments, which is in violation of CIC Section 1200. In addition, specific references to amounts, facts, and the value of the securities were not included as required under CIC Section 1201. It is recommended that the Company implement procedures to ensure that the authorization and approval of investments is documented in its board minutes to comply with CIC Section 1200 and 1201.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact title insurance business only in the State of California. In 2005, the Company had direct written premiums of approximately $300,000. Pursuant to an agency agreement, the title insurance and escrow business of the Company is also produced by its affiliate, TransUnion Title & Escrow Company of California (TTEC), an underwritten title company, which was appointed to act as the Company’s agent in Los Angeles, San Diego, Orange, Riverside, San Bernardino and Ventura counties. The agreement is for an indefinite term, provides for an underwriting premium of 10% to be paid to the Company by TTEC, and is cancelable by either party with prior notice. In 2005 the Company had total written premiums of $9.4 million with $9.1 million in premiums, or 97%, written through TTEC.

During July 2006, TTEC withdrew from the realtor based resale business in the six counties in which it was licensed and in August 2006 closed all of its offices. In October 2006, the parent, TransUnion Settlement Solutions, Inc. entered into a Letter of Intent for the purchase of TTEC. Once the sale is submitted to and approved by the California Department of Insurance, the Company plans to write a substantial amount of business pursuant to an issuing agency agreement. The Company continues to write lender based or refinance title and escrow business through its direct operations.

As previously noted, the Company is also in the final stages of executing an issuing agency agreement with an existing California licensed underwritten title company and is close to finalizing an agreement to provide title services to a major, national mortgage lender.

LOSS EXPERIENCE

The Company reported operating and net losses in the last two and one half years as follows:

Year	Net Operating Gain or (Loss)	Net Income or (Loss)
2001	$ 1,145,103	$ 776,581
2002	$ 122,369	$ 77,542
2003	$ 608,424	$ 344,222
2004	$ (201,079)	$ (155,639)
2005	$ (376,045)	$ (3,477,863)
2006 (*)	$ (63,595)	$ (14,986)

(*) through September 30, 2006

The Company was largely dependent upon revenue from refinance transactions from California lenders during 2002 and 2003 when interest rates were at all time historical lows. As interest rates began to increase in 2004, the refinance business began to soften and the trend has continued. This resulted in operating and net losses in 2004 and the first half of 2005. Subsequent to its acquisition in July 2005, the Company divested and spun-off its subsidiary underwritten title company, TransUnion Title & Escrow Company of California, which resulted in a realized loss of approximately $3 million and is the major component of the net loss in 2005.

REINSURANCE

The Company does not assume or cede reinsurance.

ACCOUNTS AND RECORDS

It was noted during the examination that Company senior executives were unresponsive to the California Department of Insurance (CDI) inquiries and requests. Although a reasonable time frame for responses was given and various follow-up requests were made, the Company did not communicate in a timely manner with the CDI regarding the status of the inquiries and requests. Pursuant to California Insurance Code (CIC) Section 734, the Company is required to provide information in a timely manner. It is recommended that Company senior executives recognize the importance of communicating with the CDI and comply with CIC Section 734.

It was also noted that amendments made to the 2005 Annual Statement and the March 31, 2006 Quarterly Financial Statement during the examination as a result of post-acquisition merger transactions resulted in an increase to the payable to parent account and a corresponding reduction to policyholder surplus of $311,101. This Report of Examination reflects the amended Annual Statement as filed by the Company.

Information System Controls

During the course of the examination a review was made of the Company's general controls over its information systems. As a result of the review, weaknesses were noted and presented to the Company in areas such as logical security, physical security and contingency planning. It is recommended that the Company evaluate the weakness noted and make appropriate changes to strengthen its information system controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Underwriting and Investment Exhibit for the Year Ended December 31, 2005

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

Reconciliation of Examination Changes as of December 31, 2005

Statement of Financial Condition
as of December 31, 2005

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 100,000	$	$ 100,000	
Stocks:				
Common stocks	512,550		512,550	(1)
Cash and short-term investments	6,488,728		6,488,728	(1)
Title plants	696,040	556,074	139,966	(2)
Investment income due and accrued	1,360		1,360	
Premiums and considerations:				
Uncollected premiums and agents' balances	97,172		97,172	(3)
Federal income tax recoverable	26,810		26,810	
Net deferred tax asset	286,718	165,155	121,563	
Electronic data processing equipment	11,539		11,539	(4)
Furniture and equipment	24,477	24,477	0	
Aggregate write-ins for other than invested assets	2,807	2,807	0	
Total assets	$ 8,248,201	$ 748,513	$ 7,499,688	

Liabilities, Surplus and Other Funds

Known claims reserve			$ 492,716	(5)
Statutory premium reserve			4,329,313	(6)
Commissions, brokerage and other charges			1,760	
Other expenses			280,871	
Taxes, licenses and fees			142,337	
Payable to parent, subsidiaries and affiliates			842,765	(7)
Total liabilities			6,089,762	
Common capital stock		$ 1,000,000		(8)
Gross paid-in and contributed surplus		7,525,495		
Unassigned funds (surplus)		(7,115,569)		
Surplus as regards policyholders			1,409,926	
Total liabilities, Surplus and Other Funds			$ 7,499,688	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2005

Statement of Income

Operating Income		
Premiums earned		$ 9,668,531
Service charges:		
Other title fees and service charges		122,818
Total operating income		9,791,349
Deductions:		
Losses and loss adjustment expenses incurred	$ 915,166	
Operating expenses incurred	9,252,228	
Total operating deductions		10,167,394
Net operating loss		(376,045)
Investment Income		
Net investment income earned	57,395	
Net realized capital losses	(3,033,600)	
Net investment loss		(2,976,205)
Net loss before federal income taxes		(3,352,250)
Federal income taxes incurred		125,613
Net loss		$ (3,477,863)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2004		$ 1,371,720
Net loss	$ (3,477,863)	
Net unrealized capital losses	(8,406)	
Change in net deferred income tax	288,179	
Change in nonadmitted assets	(238,704)	
Change in surplus notes	(700,000)	
Capital changes: Paid in	3,475,000	
Surplus adjustments: Paid in	700,000	
Change in surplus as regards policyholders		38,206
Surplus as regards policyholders, December 31, 2005		$ 1,409,926

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2002, per Examination			$ 4,677,421
Net loss	$	$ 4,263,705	
Net unrealized capital losses		3,641,006	
Change in net deferred income tax	1,043,022		
Change in nonadmitted assets	119,194		
Change in surplus notes		700,000	
Capital changes: Paid in	2,975,000		
Capital changes: Transferred from surplus (stock dividend)	500,000		
Surplus adjustments: Paid in	700,000		
Totals	$ 5,337,216	$ 8,604,711	
Net decrease in surplus as regards policyholders			(3,267,495)
Surplus as regards policyholders, December 31, 2005, per Examination			$ 1,409,926

Reconciliation of Examination Changes
as of December 31, 2005

	Per Company	Per Examination	Surplus Increase (Decrease)	Notes
Assets				
Title plants	$ 500,000	$ 139,966	$ (360,034)	(2)
Decrease in surplus as regards policyholders			(360,034)	
Surplus as regards policyholders, December 31, 2005, per Company			1,769,960	
Surplus as regards policyholders, December 31, 2005, per Examination			$ 1,409,926	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Common Stocks
Short-Term Investments

Although the Company's investments are held with Wells Fargo Bank, the Company does not have a custodial agreement. Additionally, California Insurance Code (CIC) Section 1104.9 requires a company to use a California depository as a custodian. In 2006, Wells Fargo Bank was purchased by a South Dakota Bank and is no longer domiciled in California, and is therefore no longer a qualified custodian. It is recommended the Company transfer its asset to a qualified custodian pursuant to CIC Section 1104.9. Additionally, the Company should enter into a custodial agreement with a qualified custodian and submit it to the California Department of Insurance (CDI) for approval.

It was also noted during a review and reconciliation of the Company's investments that the carrying values were determined based on balances from a November 30, 2005 custodial statement. The Company indicated that since it did not receive the December 31, 2005 custodial statement until after the financial statement reporting period, and it does not have the ability to adjust and truly reflect the year-end balance. As a result of the timing difference, the Company understated its investments. Although the amount is not material and no adjustment was made for purposes of this examination report, it is recommended that the Company change its procedures to properly report the correct carrying values.

(2) Title Plants

California Insurance Code (CIC) Section 12372 specifies that title plant assets are to be valued at actual cost but not in excess of 50% of the aggregate par value of the shares of the insurer's capital stock. In addition, if the title plant is not maintained or utilized, an annual 10% reduction in the asset value is required pursuant to CIC Section 12372.5.

The Company owns a San Francisco Back Title Plant (Plant) that is currently being used and maintained by a third party, North American Title Company (NATC). Based on correspondences from NATC, the only maintenance expenses incurred for the Plant were limited to monthly storage fees of $250. Storage fees are not considered as maintenance pursuant to (CIC) Section 12372.5. It was also noted that the Plant is utilized by NATC every few weeks but is a static back plant and, therefore, not updated or kept current.

Since the Company was unable to provide evidence that the Plant was updated and kept current, the Plant value must be reduced 10% for each year that it was not maintained. Although the Company reported the Plant cost as $696,040 they were unable to provide documentation to support the reported cost, the cost was based on the last appraised value dated March 1, 1990 of $736,900 for purposes of this examination. The annual 10% reduction decreases the admitted carrying value of the Plant to $136,549.

The Company also owns a Colton Plant which is valued at $3,417. Based on examination calculations, the net admitted asset value of the two title plants as of year-end 2005 is $139,966, which represents an examination adjustment of $360,034. It is recommended the Company comply with CIC Section 12372.5 and reduce the asset value to $139,966. It is also recommended that the Company continue to reduce the title plant asset value 10% for each year it is not maintained.

(3) Premiums and Considerations: Uncollected Premiums and Agents' Balances

According to Statement of Statutory Accounting Principles (SSAP) No. 6, Paragraph 9(a), all uncollected premium balances which are over 90 days due should be non-admitted. Based on a review of the Company's documentation and its method of aging receivables, it was noted that the Company only non-admitted 50% of the accounts receivable that were over 90 days. Although the receivable was overstated, it was not considered material and no examination adjustment was made. It is, however, recommended that the Company comply with SSAP No. 6, Paragraph 9(a) and non-admit all receivable balances over 90 days past due.

(4) Electronic Data Processing Equipment and Software

California Insurance Code (CIC) Section 1194.95 requires electronic data processing equipment to be depreciated in full over a period not to exceed 4 years. Although the Company policy is to depreciate electronic data processing equipment and software over 3 years, there were various items that were over 5 years old and still not fully depreciated. The Company stated that this was due to errors made when the assets were transferred to the Company. At the request of the examiner, the Company made the correction and wrote-off the full amount in May 2006. Although the asset was overstated, the amounts were not considered material therefore no examination adjustment was made. It is recommended that the Company strengthen its controls and procedures to detect these types of errors in order to comply with CIC Section 1194.95.

(5) Known Claims Reserve

Based on a review of the Company's known claims reserves by a Casualty Actuary from the California Department of Insurance, the reserves appear reasonable and have been accepted for purposes of this examination.

(6) Statutory Premium Reserve

A review of the Company’s statutory premium reserve by a Casualty Actuary from the California Department of Insurance disclosed that the Company’s reserves are computed in accordance with California Insurance Code (CIC) Sections 12382.2 and 12382.5.

CIC Sections 12382.2 and 12382.5 require a portion of title insurance premiums written to be deferred and set aside as a statutory premium reserve with subsequent reductions to the reserve over a 20 year period. Based on a review of the statutory premium reserve computation, it was noted that two types of title policies were excluded from premiums written. These policies are the Limited Coverage Liability Guarantee (LCLG) policies and the Trust Sales Guarantee (TSG) policies which were both incorrectly reported as other income. As such, the required reserves pursuant to CIC

Section 12382.2(c) for 2005 were understated. The premium for LCLG and TSG policies have also been excluded from prior year statutory premium reserve computations. The amounts were not considered material therefore no examination adjustment was made. It is recommended that the Company comply with CIC Sections 12382.2 and 12382.5 and include the LCLG and TSG premiums in the computation of its statutory premium reserve.

(7) Payable to Parent, Subsidiaries and Affiliates

According to the Annual Statement instructions, amounts owed due to tax sharing agreements are to be excluded from intercompany balances. The Company incorrectly reported $152,423 of its federal income tax provision in the above captioned account. It is recommended that the Company comply with the Annual Statement instructions and report transactions related to tax sharing agreements in its current federal and foreign income tax account.

(8) Common Capital Stock

In December 2003, the Company increased the par value of its capital stock from $100 per share, with 5,000 shares authorized, issued and outstanding, to $200 per share for a total of $1,000,000 in capital stock. The recapitalization was accomplished by reallocating gross paid-in and contributed surplus to common capital stock. According to the Company, the recapitalization was required primarily to allow the Company to obtain a license to write business in Texas. Currently, the Company has no plans to write business in Texas. Additionally, the recapitalization would allow the Company to admit higher amounts for its title plant based on California Insurance Code (CIC) Section 12372 which states, in part, that title plants may be treated as an asset, valued at actual cost not in excess of 50% of the par value of the shares of capital stock issued and outstanding.

Pursuant to CIC Section 827.3(c), an increase in par value resulting from a transfer of gross paid-in surplus to capital requires a notification to the California Insurance Commissioner within 30 days after the transaction. A review of this transaction disclosed that the Company did not notify the Commissioner for the change in its common capital stock. It is recommended that the Company notify the Commissioner, in writing, of the increase in its common stock par value to ensure compliance with CIC Section 827.3(c). This is a repeat finding from the previous examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Management Agreements (Page 6): It is recommended that the Company do the following:

(1) Prepare complete and comprehensive written agreements outlining the allocation of costs along with the duties and responsibilities of all parties to the agreements.

(2) Include in the agreement a provision with settlement terms.

(3) Submit the agreement and any subsequent amendments to the California Department of Insurance (CDI) for approval pursuant to California Insurance Code (CIC) Section 1215.5(b).

Management and Control – Conflict of Interest (Page 7): It is recommended that the Company implement procedures to annually obtain and review completed conflict of interest statements from all of its officers, directors and key employees. This is a repeat finding from the previous examination.

Corporate Records (Page 7): It is recommended that the Company implement procedures to ensure that the authorization and approval of investments is documented in its board minutes to comply with CIC Section 1200 and 1201.

Accounts and Records (Page 9): It is recommended that Company senior executives recognize the importance of communicating with the CDI and comply with CIC Section 734.

Accounts and Records – Information System Controls (Page 9): It is recommended that the Company evaluate the weakness noted and make appropriate changes to strengthen its information system controls.

Comments on Financial Statement Items – Common Stocks and Short-Term Investments (Page 15): It is recommended the Company do the following:

(1) Transfer its assets to a qualified custodian pursuant to CIC Section 1104.9. Additionally, the Company should enter into a custodial agreement with a qualified custodian and submit it to the CDI for approval.

(2) Change its procedures to properly report the correct carrying values.

Comments on Financial Statement Items – Title Plants (Page 15): It is recommended the Company comply with CIC Section 12372.5 and reduce the asset value to $139,966. Additionally, the Company should continue to reduce the asset value 10% for each year it is not maintained.

Comments on Financial Statement Items – Premiums and Considerations: Uncollected Premiums and Agents' Balances (Page 16): It is recommended that the Company comply with Statements of Statutory Principles No. 6, Paragraph 9(a) and non-admit all receivable balances over 90 days past due.

Comments on Financial Statement Items – Electronic Data Processing Equipment and Software (Page 17): It is recommended that the Company strengthen its controls and procedures to detect accounting errors in order to comply with CIC Section 1194.95.

Comments on Financial Statement Items – Statutory Premium Reserve (Page 17): It is recommended that the Company comply with CIC Section 12382.2 and 12382.5 and include the Limited Coverage Liability Guarantee (LCLG) and Trust Sales Guarantee (TSG) premiums in the computation of its statutory premium reserve.

Comments on Financial Statement Items – Payable to Parent, Subsidiaries and Affiliates (Page 18): It is recommended that the Company comply with the Annual Statement instructions and report transactions related to tax sharing agreements in its current federal and foreign income tax account.

Comments on Financial Statement Items – Common Capital Stock (Page 18): It is recommended that the Company notify the Commissioner, in writing, of the increase in its common stock par value pursuant to CIC Section 827.3(c). This is a repeat finding from the previous examination.

Previous Report of Examination

Management and Control – Management Agreements (Page 6): It was recommended that the Company do the following:

(1) Prepare complete and comprehensive written agreements outlining the allocation of costs along with the duties and responsibilities of all parties to the agreements. The agreements should be submitted to the CDI for approval pursuant to CIC Section 1215.5(b). The Company still has not complied with this recommendation.

(2) Prepare and maintain documentation that will provide a complete audit trail from the actual expenses incurred by the entity providing the services to the reimbursement of these amounts by the companies receiving these services. The Company has complied with this recommendation.

(3) Prepare and maintain supporting documentation for the methodology and justifications supporting the allocations. The Company has complied with this recommendation.

(4) Report all amendments to these agreements on the Form B (CIC Section 1215 Holding Company Act filings) and, if required, obtain prior approval from the CDI. The Company has complied with this recommendation.

(5) Submit the Tax Allocation Agreement and any subsequent amendments to the CDI for approval pursuant to CIC Section 1215.5(b). The Company has complied with this recommendation. The CDI approved the agreement on February 24, 2006.

Management and Control – Inter-company Balances (Page 8): It was recommended that the Company settle the inter-company balances on a more timely basis. The Company still has not fully complied with this recommendation.

Management and Control – Conflict of Interest (Page 8): It was recommended that the Company implement procedures to annually obtain and review completed conflict of interest statements from all of its officers, directors and key employees. A similar comment was also noted in the previous examination. The Company still has not fully complied with this recommendation.

Corporate Records (Page 9): It was recommended that the Company implement procedures in its board meetings to ensure compliance with CIC Section 735. This was also noted in the previous examination. The Company has complied with this recommendation.

Accounts and Records (Page 10): It was recommended that the Company implement controls to detect errors and properly review the statutory financial statements before they are submitted to the CDI. The Company has complied with this recommendation.

Comments on Financial Statement Items – Common Stocks (Page 15): It was recommended that the Company submit common stock securities to the Securities Valuation Office (SVO) for valuation as required in Part Eight, Section 1 of the SVO Manual. The Company is now in compliance.

Comments on Financial Statement Items – EDP Equipment and Software (Page 16): It was recommended that the Company comply with CIC Section 1194.95 and amortize all electronic data processing equipment and software in full over a period not to exceed 4 years. The Company has partially complied with this recommendation.

Comments on Financial Statement Items – Common Capital Stock (Page 17): It was recommended that the Company notify the Commissioner, in writing, of the increase in its common stock par value pursuant to CIC Section 827.3(c). The Company still has not complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Deanna Lo, AFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California